

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Fremont Area District Library</b>	County <b>Newaygo</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>1/25/06</b>	Date Accountant Report Submitted to State: <b>2/28/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**Hendon & Slate, P.C.**

Street Address

**711 West Main Street, PO Box 9**

City

**Fremont**

State

**MI**

Zip

**49412**

Accountant Signature

*Godi DeKuijper, CPA*

Date

**2/28/06**

**FREMONT AREA DISTRICT LIBRARY  
NEWAYGO COUNTY, MICHIGAN**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2005**

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## **FREMONT AREA DISTRICT LIBRARY**

### Library Board

<u>Appointed Official</u>	<u>Position</u>
Amy Wharton	President
Arleen Frost	Vice- President
Dennis Caplis	Treasurer
Gail Cooper	Secretary
Karla Johnson	Trustee
Peggy Byland	Trustee
Ruth Deuling	Trustee

### Administration

Raymond Arnett	Library Director
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**Hendon & Slate, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS



Library Board  
Fremont Area District Library  
Fremont, MI 49412

### Independent Auditor's Report

We have audited the accompanying basic financial statements of the Fremont Area District Library as of and for the year ended December 31, 2005 as listed in the accompanying table of contents. These financial statements are the responsibility of the Fremont Area District Library Board. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Fremont Area District Library as of December 31, 2005, and the changes in financial position for the year ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents as supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements of Fremont Area District Library. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

The management discussion and analysis included in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of Fremont Area District Library. We did not examine this data and, accordingly, do not express an opinion thereon.

*Hendon & Slate*

Hendon & Slate, P.C.  
Certified Public Accountants  
January 25, 2006

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**FREMONT AREA DISTRICT LIBRARY  
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)  
YEAR ENDED DECEMBER 31, 2005**

**Using this annual Report**

This annual report consists of three parts - *management's discussion and analysis* (this Section), the *basic financial statements*, and *required supplementary information*. The Basic Financial Statements include information that presents two different views of the Library:

- The first column of the financial statements includes information on the Library's General Fund under the modified accrual method. The second column provides information on the Debt Service Fund. These two columns are combined in a Total column (the third column). These *Fund Financial Statements* focus on the current financial resources and provide a more detailed view about the accountability of the Library's sources and uses of funds.
- The Adjustment column of the financial statements represents adjustments necessary to the government-wide financial statements under the full-accrual method.
- The *government-wide financial statement* columns provide both *long-term* and *short-term* information about the Library's *overall* financial status. The statement of net assets and the statement of activities provide information about the activities of the Library as a whole and present a longer-term view of the Library's finances. These statements tell how these services were financed in short term as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

**Condensed Financial Information**

The table below contains key financial information in a condensed format as a comparative analysis of government-wide data for the year ended December 31, 2005, the six months ended December 31, 2004, and for fiscal year ended June 30, 2004.

	<b>December 31, 2005</b>	<b>Six Months Ended December 31 2004</b>	<b>June 30, 2004</b>
Current Assets	\$ 172,523	\$ 170,097	\$ 451,578
Capital Assets	<u>6,092,693</u>	<u>6,235,692</u>	<u>6,317,821</u>
Total Assets	<u>\$ 6,265,216</u>	<u>\$ 6,405,789</u>	<u>\$ 6,769,399</u>
Long-term Debt	\$ 770,911	\$ 808,533	\$ 808,725
Other Liabilities	<u>103,597</u>	<u>96,830</u>	<u>145,616</u>
Total Liabilities	<u>\$ 874,508</u>	<u>\$ 905,363</u>	<u>\$ 954,341</u>
Net Assets:			
Invested in Capital Assets, net of Debt	\$ 5,332,693	\$ 5,435,692	\$ 5,517,821
Restricted for Debt Service	48,905	48,310	48,105
Unrestricted	<u>9,110</u>	<u>16,423</u>	<u>249,132</u>
Total Net Assets	<u>\$ 5,390,708</u>	<u>\$ 5,500,425</u>	<u>\$ 5,815,058</u>
Revenue:			
Taxes	\$ 481,837	\$ 557	\$ 452,922
Grants	190,751	126,039	290,034
Other	<u>137,762</u>	<u>29,115</u>	<u>124,955</u>
Total Revenues	810,350	155,711	867,911
Expenses - Library Services	<u>905,921</u>	<u>470,344</u>	<u>909,838</u>
Change in Net Assets	<u>\$ (95,571)</u>	<u>\$ (314,633)</u>	<u>\$ (41,927)</u>

### **The Library as a Whole**

The state continues to experience tight economic times and state aid to libraries has been cut as a result. The library has a stable source of funding in property taxes, however, this is limited in its growth due to Headlee amendment rollbacks. The library reduced staffing at the beginning of the year and tightly controlled expenditures throughout the year in order to ensure that the budget would be balanced.

The Fremont Area District Library is fortunate to have strong community support that has resulted in private donations and the library did experience a slight growth in those donations. In addition, several families have established funds at the Fremont Area Community Foundation to benefit the library, and the library has utilized earnings from those funds this year to provide additional materials and programing.

The areas served by the Fremont Area District Library continues to grow economically, however, this past year did not see any major changes or growth in the tax base.

- The Library's net assets decreased by \$109,717 (including a prior period entry of \$14,146) in the current year compared to \$314,633 in the six months ended December 31, 2004 and \$41,927 in the year ended June 30, 2004.
- The Library's primary source of revenue is from taxes, which represents 59.5 percent of total revenues as compared to 0.4 percent in the six months ended December 31, 2004 and 52.2 percent in the year ended June 30, 2004. This difference is due to the timing of reporting property tax revenue for the short period.
- Salaries and fringe benefits are a significant expense of the Library, representing 47.8 percent of total expenses. The salaries and benefits for the six months ended December 31, 2004 were 47 percent and for the year ended June 30, 2004 were 44 percent.
- Depreciation expense for the current year represented 23 percent of the Library's total expenses (12/31/04 was 26 percent and 6/30/04 was 23 percent), which is consistent with the expenses as a whole.

### **The Library's Funds**

Our analysis of the Library's major funds is included on pages 5 and 6 in the first two columns of the statement. The fund columns provides detailed information about the most significant fund - not the Library as a whole. The Library Board has the ability to create separate funds to help manage money for specific purposes, and to maintain accountability for certain activities, such as property tax millages. The Library's major funds consist of the General Fund and the Debt Service Fund.

The fund balance of the General Fund decreased during the year by \$4,935 (including a prior period entry of \$14,146), compared with \$232,901 in the six months ended December 31, 2004 and \$43,853 in the year ended June 30, 2004. The current year revenue covered expenditures. The prior six months decrease in fund balance reflected no taxes reported as income. June 30, 2004 year-end reflected an increase in revenues. This increase was used to increase books, capital outlay and contracted services.

Salaries and Fringe Benefits were the largest use of resources during the current year. This is consistent with both previous reporting periods.

The Debt Service Fund revenues are basically equivalent to the expenditures, resulting in only a small increase in fund balance this year. This is consistent with both previous reporting periods.

### **Library's Budgetary Highlights**

Over the course of the year, the Library Board amended the budget to take into account events that occurred during the year. The most significant amendments occurred in:

- Salaries, wages, and benefits
- Professional/contractual services
- Acquisitions
- Programming supplies
- Capital outlay

Changes in salaries, wages, and benefits reflected the hiring of a new director midway through the year and the hiring of an administrative assistant in December 2004. As a result of the administrative assistant being hired, the library reduced the amount budgeted for professional/contractual services since a contracted temporary was no longer needed.

Amendments were made to acquisitions and programming supplies to reflect additional grants received during the year. In addition, delaying the purchase of a new computer file server and some new workstations until 2006 reduced the need for capital outlay significantly.

### **Capital Assets and Debt Administration**

At the end of the year, the Library had \$8,019,193 invested in land, building, furniture and equipment, and books and materials. The Library added \$61,895 in new equipment and collection items. This consisted of \$3,801 in a hearing loop and \$58,094 in new collection items, which included new books, various audio/visual materials, and additions to the music collection. The Library also adjusted the value of the Library collection to more appropriately reflect purchase value.

The Library's debt rating is excellent. No debt was issued during the year. The Library's bonded indebtedness totaled \$760,000 and the amounts owed for Vacation and Sick Leave amounted to \$10,911 at December 31, 2005. The Library Board is investigating the potential to redeem a significant portion of the bonds prior to maturity early in 2006.

### **Economic Factors and Next Year's Budgets**

The Library Board prepared the 2006 budget with little expectation of changes in funding, except for a slight increase in property taxes and a slight decrease in grants. The total expenditures expected for 2006 were slightly less than the 2005 final amended budget. The budget categories were adjusted for expectations, such as contracted service and collection expenditures were less than the 2005 budget and the salaries and wages expenditures were more than the 2005 budget. This reflects Board's expectation of the economic factors for the year 2006.

### **Requests for Information**

This financial report is designed to provide a general overview of the Fremont Area District Library's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Library Director, Fremont Area District Library, 104 E. Main Street, Fremont, MI 49412.



# FREMONT AREA DISTRICT LIBRARY

## Governmental Funds Balance Sheet/Statement of Net Assets December 31, 2005

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u> <sup>A</sup>	<u>Statement of Activities</u>
Assets and Other Debits					
Cash	\$ 111,588	\$ 48,905	\$ 160,493	\$ -	\$ 160,493
Accounts Receivable	300	-	300	-	300
Prepaid Expenses	11,730	-	11,730	-	11,730
Land	-	-	-	327,893	327,893
Other Capital Assets, Net of Accumulated Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,764,800</u>	<u>5,764,800</u>
Total Assets	<u>\$ 123,618</u>	<u>\$ 48,905</u>	<u>\$ 172,523</u>	6,092,693	6,265,216
Liabilities, Fund Equity and Other Credits					
Liabilities					
Accounts Payable	\$ 22,696	\$ -	\$ 22,696	-	22,696
Due to Other Governments	1,067	-	1,067	-	1,067
Accrued Salaries and Taxes	13,345	-	13,345	-	13,345
Deferred Revenue	66,489	-	66,489	-	66,489
Long-Term Liabilities					
Bonds Payable, Due within One Year	-	-	-	45,000	45,000
Bonds Payable, Due After One Year	-	-	-	715,000	715,000
Accumulated Employee Benefits	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,911</u>	<u>10,911</u>
Total Liabilities	103,597	-	103,597	770,911	874,508
Fund Balance/Net Assets					
Fund Balances					
Unreserved	20,021	-	20,021	(20,021)	-
Unreserved, reported in Debt Service	<u>-</u>	<u>48,905</u>	<u>48,905</u>	<u>(48,905)</u>	-
Total Fund Balances	<u>20,021</u>	<u>48,905</u>	<u>68,926</u>	<u>(68,926)</u>	<u>-</u>
Total Liabilities and Fund balances	<u>\$ 123,618</u>	<u>\$ 48,905</u>	<u>\$ 172,523</u>		
Net Assets:					
Invested in Capital Assets, Net of Related Debt				5,332,693	5,332,693
Restricted for Debt Service				48,905	48,905
Unrestricted				9,110	9,110
Total Net Assets				\$ 5,390,708	\$ 5,390,708

<sup>A</sup>Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

# FREMONT AREA DISTRICT LIBRARY

## Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities For the Year Ended December 31, 2005

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>	<u>Adjustments</u> <sup>A</sup>	<u>Statement of Activities</u>
Revenue					
Local Sources					
Taxes	\$ 481,837	\$ -	\$ 481,837	\$ -	\$ 481,837
Grants	114,875	75,876	190,751	-	190,751
Penal Fines	62,901	-	62,901	-	62,901
Interest	8,986	595	9,581	-	9,581
Patron Fees	26,140	-	26,140	-	26,140
Donations - Memorials	25,741	-	25,741	-	25,741
Other	<u>1,852</u>	<u>-</u>	<u>1,852</u>	<u>-</u>	<u>1,852</u>
Total Local Sources	722,332	76,471	798,803	-	798,803
State Sources - State Aid	<u>11,547</u>	<u>-</u>	<u>11,547</u>	<u>-</u>	<u>11,547</u>
Total Revenues	733,879	76,471	810,350	-	810,350
Expenditures					
Salaries and Fringe Benefits	430,372	-	430,372	2,377	432,749
Library Books and Materials	60,469	-	60,469	(58,094)	2,375
Utilities and Telephone	73,480	-	73,480	-	73,480
Repairs and Maintenance	67,423	-	67,423	-	67,423
Capital Outlay	5,660	-	5,660	(3,801)	1,859
Insurance	16,119	-	16,119	-	16,119
Professional and Contracted Services 34,621	-	34,621	-	34,621	
Miscellaneous	36,524	-	36,524	-	36,524
Depreciation	-	-	-	204,895	204,895
Debt Service					
Principal	-	40,000	40,000	(40,000)	-
Interest and Fees	<u>-</u>	<u>35,876</u>	<u>35,876</u>	<u>-</u>	<u>35,876</u>
Total Expenditures	<u>724,668</u>	<u>75,876</u>	<u>800,544</u>	<u>105,377</u>	<u>905,921</u>
Excess Revenue Over Expenditures/ Change in Net Assets	9,211	595	9,806	(105,377)	(95,571)
Fund Balance/Net Assets - Beginning	24,956	48,310	73,266	5,427,159	5,500,425
Prior Period Entry	<u>(14,146)</u>	<u>-</u>	<u>(14,146)</u>	<u>-</u>	<u>(14,146)</u>
Fund Balance/Net Assets - Ending	<u>\$ 20,021</u>	<u>\$ 48,905</u>	<u>\$ 68,926</u>	<u>\$ 5,321,782</u>	<u>\$ 5,390,708</u>

<sup>A</sup> Notes to the Financial Statements provide the details for main components of the adjustments.

The Notes to the Financial Statements are an integral part of this statement.

## **FREMONT AREA DISTRICT LIBRARY**

Notes to the Financial Statements  
December 31, 2005

### **NOTE A NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Fremont Area District Library (the "Library") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

#### **1. REPORTING ENTITY**

Fremont Public Library was reorganized as the Fremont Area District Library as created by Act 24 of the Public Acts of 1989, as amended effective July 1, 1996. The purpose of the Fremont Area District Library is to provide library services to the City of Fremont and four surrounding local units, including the Fremont Public Schools. The Library's Board consists of seven appointed board members.

The financial statements include all activities of the Library. There are no governmental departments, agencies, institutions, commissions, public authorities or organizations within the Library, which its appointed officials may exercise oversight responsibility, that have been excluded. Oversight responsibility is considered to be derived from the Library's power and includes, but is not limited to, financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Also, using the same criteria above, the Library's financial statements include the accounts of all Library operations.

#### **2. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

The Library's basic financial statements include both government-wide (reporting the Library as a whole) and fund financial statements (reporting the Library's major and non-major funds).

##### **Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables as well as long-term debt and obligations. The Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

The effect of interfund activity has been eliminated from the government-wide financial statements. Also, there are no fiduciary funds included in the government-wide statements.

##### **Fund Financial Statements**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the payment is due.

Interest is considered to be susceptible to accrual and so has been recognized as revenue of the current fiscal period. Grants and similar awards are recognized as revenue as soon as all eligibility requirements imposed by the grantor or provider have been met. Deferred revenues arise when resources are received by the Library before it has met all of the eligibility requirements imposed by the grantor or provider.

The Library reports the following major governmental funds:

General Fund - This fund is used to account for all financial transactions not accounted for in another fund, including the general operating expenditures of the local unit. Revenues are derived primarily from intergovernmental revenues.

The Library reports the following non-major fund types:

Debt Service Fund - Debt Service Funds are used to account for the accumulation of resources for and the payment of general long-term debt principal, interest and related costs.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities which are not financed by proprietary or trust funds.

3. CAPITAL ASSETS

Capital assets are defined by the Library as assets with an initial cost more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life on an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings and Improvements	10-50 Years
Furniture and Equipment	5-20 Years
Library Books and Materials	3-10 Years

4. PROPERTY TAXES

Property taxes are levied on December 1<sup>st</sup> based on the taxable valuation of the property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year. The Townships and City bill and collect the property taxes.

5. CASH AND CASH EQUIVALENTS

The Library's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments, if any, with original maturities of three months or less from date of acquisition.

6. USE OF ESTIMATES

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

7. PREPAID EXPENSES

Certain payments to vendors reflect cost applicable to future accounting periods and are recorded as prepaid items.

8. COMPENSATED (VACATION AND SICK LEAVE)

It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Library employees are granted vacation and sick leave in varying amounts based on

length of service. Upon termination, employees are paid accumulated vacation at full rates and a bonus in lieu of sick leave based upon years of service and status. Vacation and sick pay, per above requirements, is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental fund - General Fund only for employees terminations as of the end of the period.

9. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

10. FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subjective to change.

NOTE B DEPOSITS

Legal or Contractual Provisions for Deposits and Investments. The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended through December 31, 1997, states the Library by resolution, may authorize the Treasurer to invest surplus funds in one or more of the following:

1. Bonds, securities and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the financial institution complies with subsection (2).
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
4. Repurchase agreements consisting of instruments listed in subdivision (a).
5. Bankers' acceptances of United States banks.
6. Obligations of this state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789, 15 U.S.C. 81a-1 to 801-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation. However, a mutual fund is not disqualified as a permissible investment solely by reason of either of the following:
  - i The purchase of securities on a when-issued or delayed delivery basis.
  - ii The ability to lend portfolio securities as long as the mutual fund receives collateral all times equal to at least 100% of the securities loaned.
  - iii The limited ability to borrow and pledge a like portion of the portfolio's assets for temporary or emergency purposes.
8. Obligations described in subdivisions (a) through (g) if purchased through an interlocal agreement under the Urban Cooperations Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.501 to 124.512.
9. Investment pools organized under the surplus funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

Notes to the Financial Statements (Continued)

10. The investment pools organized under the local government Investment Pool Act, 1985 PA 121, MCL 129.141 to 129.150.

The Library funds are held at Huntington Bank and are carried at cost and consisted of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
Checking-NOW	\$ (92)	\$ 847
Money Market - General	111,560	111,560
Money Market - Debt Service	48,905	48,905
Cash on Hand	<u>120</u>	<u>-</u>
Total Deposits	<u>\$ 160,493</u>	<u>\$ 161,312</u>
FDIC Insured	\$ (92)	\$ 847
Uninsured	120	-
Money Market Funds	160,465	160,465

Investments are normally categorized to give an indication of the level of risk assumed by the Library; however, money market funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE C DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grants	<u>\$ -</u>	<u>\$ 66,489</u>

NOTE D CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for governmental activities is as follows:

	<u>Balance 1/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance 12/31/05</u>
Assets not being depreciated				
Land	\$ 327,893	\$ -	\$ -	\$ 327,893
Other Capital Assets:				
Building & Improvements	6,157,114	-	-	6,157,114
Furniture & Equipment	722,915	3,801	-	726,716
Library Collection	<u>1,297,284</u>	<u>58,094</u>	<u>(547,908)</u>	<u>807,470</u>
Total	8,505,206	61,895	(547,908)	8,019,193
Accumulated Depreciation	<u>(2,269,513)</u>	<u>(204,895)</u>	<u>547,908</u>	<u>(1,926,501)</u>
Net Book value	<u>\$ 6,235,693</u>	<u>\$ (143,000)</u>	<u>\$ -</u>	<u>\$ 6,092,693</u>

## NOTE E CHANGES IN LONG-TERM DEBT

Outstanding Debt

A summary of debt outstanding of The Library for governmental activities at December 31, 2005 is as follows:

	Balance <u>January 1, 2005</u>	(Net) Borrowings (Payments)	Balance <u>December 31, 2005</u>	Amounts Due within <u>One Year</u>
Bonds Payable - due in annual installments of \$15,000 to \$75,000 through May 2018; interest from 3.5% to 5.0%	\$ 800,000	\$ (40,000)	\$ 760,000	\$ 45,000
Vacation and Sick Pay - due as used or upon retirement or termination	<u>8,533</u>	<u>2,378</u>	<u>10,911</u>	<u>2,728</u>
Total General Long-Term Debt Account Group <u>\$ 808,533</u>	<u>\$ (37,622)</u>	<u>\$ 770,911</u>	<u>\$ 47,728</u>	

The compensated absences represent the estimated liability to be paid employees under The Library's sick-pay bonus and vacation pay policy. Under The Library's policy, employees earn vacation time and sick pay bonuses based on hours worked and years of service with The Library.

Debt Service Requirements

The annual requirements to amortize all debt outstanding at December 31, 2005 (excluding employee benefits), including both principal and interest are as follows:

	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 79,154	\$ 45,000	\$ 34,154
2007	77,298	45,000	32,298
2008	80,314	50,000	30,314
2009	78,188	50,000	28,188
2010	76,014	50,000	26,014
2011 - 2015	395,686	305,000	90,686
2016 - 2018	<u>231,331</u>	<u>215,000</u>	<u>16,331</u>
	<u>\$ 1,017,985</u>	<u>\$ 760,000</u>	<u>\$ 257,985</u>

Interest

Interest expense of The Library for the year ended December 31, 2005 was \$36,524.

## NOTE F RETIREMENT PLAN

Description of Plan and Plan Assets - The Library is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and postretirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.25 percent times the final average compensation (FAC) with a maximum benefit of 80 percent of FAC. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2004.

MERS was organized pursuant to Section 12a of Act #156, Public Acts of 1851 (MSA 5.333(a); MCLA 46.12(a), as amended, State of Michigan. MERS is regulated under Act No. 427 of the Public Acts of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 447 North Canal Street, Lansing, Michigan 48917-9755.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the Library's personnel policy, which does not require employees to contribute to the plan. The Library is required to contribute at an actuarially determined rate: the current rate was 14.73 percent at December 31, 2004.

Annual Pension Cost - During the year ended December 31, 2005, the Library's contributions totaling \$34,140 were made in accordance with contribution requirements. The employer contribution rate has been determined based on the entry age normal cost funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent plus a percentage based on an age-related scale to reflect merit, longevity, and promotional salary increases.

GASB 25 and GASB 27 Information - The following information has been prepared to provide the information necessary to comply with GASB Statements Number 25 and 27.

All entries and the annual employer contribution amount were based on the actuarial methods and assumptions used in the December 31, 2004 actuarial valuations. The entry age normal actuarial method was used to determine the disclosure entries.

GASB 25 Information

	As of <u>12/31/04</u>
Actuarial Accrued Liability	
Retirees and beneficiaries currently receiving benefits	\$ 507,434
Terminated employees (vested former employees) Not yet receiving benefits	26,277
Non-vested terminated employees (pending refunds of Accumulated member contributions)	-
Current employees -	
Accumulated employee contributions Including allocated investment income	7,093
Employer financed	<u>148,738</u>
Total Actuarial Accrued Liability (b)	689,542
Net Assets Available for Benefits at Actuarial Value (Market Value is \$471,654) (a)	<u>542,707</u>
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 146,835</u>



GASB 27 Information

Fiscal Year Beginning	July 1, 2006
Annual Required Contribution (ARC)	\$ 25,404
Amortization Factor Used - Underfunded Liabilities (30 Years)	0.053632

<u>Trend Information</u>			
<u>Fiscal Period Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2004	\$ 31,299	100%	-0-
December 31, 2004	\$ 16,386	100%	-0-
December 31, 2005	\$ 34,140	100%	-0-

<u>Schedule of Funding Progress</u>						
<u>Actuarial Valuation</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded (Over)AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL As a % of Covered Payroll (b-a/c)</u>
<u>12/31</u>						
2002	460,835	636,850	176,015	72.0%	227,878	77.0%
2003	516,537	684,906	168,369	75.0%	230,779	73.0%
2004	542,707	689,542	146,835	78.7%	247,327	59.4%

## NOTE G DEFERRED COMPENSATION PLAN

The Library offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Library employees, permits deferral of a portion of earnings until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Library (without being restricted to the provisions of benefits under the plan), subject only to the claims of the Library's general creditors. Participants' rights under the plan are equal to those of general creditors of the Library in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the Library that the Library has no liability for losses under the plan but does have the duty of due care that would be required for an ordinary prudent investor.

## NOTE H RELATED PARTY TRANSACTIONS

The Library uses a cleaning company that is owned by a part-time employee of the Library. During the year ended December 31, 2005, \$33,780 was paid to this cleaning company. No amounts were owed to this company at year-end.

## NOTE I RISK MANAGEMENT

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Library maintains commercial insurance coverage for each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Library. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE J STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

The General Fund is under formal budgetary control. The budget shown in the financial statements for this fund was prepared on a basis not significantly different from the modified accrual basis used to reflect actual results and consists only of those amounts contained in the formal budget approved and amended by the Board.

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended December 31, 2005, the Library did not incur any material overexpenditures.

NOTE K RECONCILIATION OF FUND FINANCIAL STATEMENTS TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Total fund balance and the net change in fund balance of the Library's governmental fund differs from net assets and statement of the governmental activities reported in the statement of net assets and statement of activities. This difference primarily results from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the governmental fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliation of fund balance to net assets and the net change in fund balance to the net change in net assets:

**Total Fund Balance - Modified Accrual Basis** \$ 68,926

Amounts reported in the statement of net assets are different because:

Capital Assets are not financial resources, and are not reported in the funds	6,092,693
---	-----------

Long-term liabilities are not due and payable in the current period and are not reported in the funds	(760,000)
---	-----------

Compensated absences are included as a liability	<u>(10,911)</u>
--	-----------------

<b>Net Assets of General Fund - Full Accrual Basis</b>	<b><u>\$ 5,390,708</u></b>
--	----------------------------

**Net change in Fund Balances - Modified Accrual Basis** \$ 9,806

Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Library books and materials	58,094
Capital outlay	3,801
Depreciation	(204,895)

Increase in accrual for long-term compensated absences reported as an expenditure in the statement of activities, but not in the fund statements	(2,377)
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Repayments of bond principal are reported as an expenditure in the fund statements, but not in the statement of activities (where it reduces long-term debt)	<u>40,000</u>
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<b>Change in Net assets of General Fund - Full Accrual Basis</b>	<b><u>\$ (95,571)</u></b>
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Notes to the Financial Statements (Continued)

NOTE L OPERATING LEASES

During 2005, the Library entered into a lease agreement with Pitney Bowes for a mailing system. The lease term is five years at \$46 per month.

During 2004, the Library entered into a lease agreement with GE Capital for two copiers (Konica 7145 Digital Copier and Minolta CF 4000 Copier). The lease term is five years at \$219 per year.

The following is a summary of future annual lease payments:

<u>Year</u>	<u>Mailing System</u>	<u>Copiers</u>	<u>Total</u>
2006	\$ 552	\$ 2,628	\$ 3,180
2007	552	2,628	3,180
2008	552	2,628	3,180
2009	552	2,409	2,961
2010	<u>276</u>	<u>-</u>	<u>276</u>
Total	<u>\$ 2,484</u>	<u>\$ 10,293</u>	<u>\$ 12,777</u>

NOTE M PRIOR PERIOD ENTRY

It was noted that the previous financial statement did not include the accrued wages and related taxes on the Balance Sheet/Statement of Net Assets. The payroll is paid in January for the end of December and should have been expenses/expenditures in the previous year. The amounts are as follows:

Accrued Wages	\$ 13,171
Accrued Payroll Taxes	<u>975</u>
Adjusted to Beginning Fund Balance/Net Assets	<u>\$ 14,146</u>

NOTE N CHANGE IN ESTIMATE

It was also noted that the previous inventory value for the Library Collection was valued at fair market rather than original purchase price. The Library adjusted the value to reflect the estimated average price of \$10 per item. The Library removed this value from the longest held (fully depreciated) Library Collection. Therefore, there is no effect on the total net book value of capital assets or net assets reported on the Statement of Net Assets.

# FREMONT AREA DISTRICT LIBRARY

## Required Supplementary Information Budgetary Comparison Schedule – General Fund For the Year Ended December 31, 2005

	Originally Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Local Sources				
Taxes	\$ 485,152	\$ 486,313	\$ 481,837	\$ (4,476)
Grants	122,576	147,462	114,875	(32,587)
Penal Fines	60,000	62,901	62,901	-
Interest	3,800	9,350	8,986	(364)
Patron Fees	28,658	27,758	26,140	(1,618)
Donations - Memorials	20,000	25,000	25,741	741
Other	<u>4,300</u>	<u>2,000</u>	<u>1,852</u>	<u>(148)</u>
Total Local Sources	724,486	760,784	722,332	(38,452)
State Sources - State Aid	<u>11,461</u>	<u>11,461</u>	<u>11,461</u>	<u>-</u>
Total Revenues 735,947	772,331	733,879	(38,452)	
Expenditures				
Salaries and Wages	329,161	324,973	312,989	11,984
Payroll Taxes	25,181	24,860	23,628	1,232
Fringe Benefits	84,064	96,500	93,755	2,745
Acquisitions	18,500	62,393	60,469	1,924
Utilities and Telephone	70,500	70,500	73,480	(2,980)
Repairs and Maintenance	65,800	72,940	67,423	5,517
Capital Outlay	22,500	2,000	5,660	(3,660)
Insurance	23,000	23,000	16,119	6,881
Copy Machine and Processing	11,000	13,000	11,183	1,817
Office Supplies	7,500	6,878	5,803	1,075
Postage	4,400	2,800	2,952	(152)
On Line	-	1,600	991	609
Travel	2,500	2,580	1,453	1,127
Professional and Contracted Services	58,050	45,600	34,621	10,979
Printing and Publishing	5,900	2,800	1,571	1,229
Training	1,500	1,500	1,384	116
Program Supplies	600	4,300	4,343	(43)
Miscellaneous	<u>7,000</u>	<u>7,800</u>	<u>6,844</u>	<u>956</u>
Total Expenditures	<u>737,156</u>	<u>766,024</u>	<u>724,668</u>	<u>41,356</u>
Excess Revenues Over (Under) Expenditures	<u>\$ (1,209)</u>	<u>\$ 6,307</u>	9,211	<u>\$ 2,904</u>
Fund Balance - January 1			24,956	
Prior Period Entry			<u>(14,146)</u>	
Fund Balance - December 31			<u>\$ 20,021</u>	

# FREMONT AREA DISTRICT LIBRARY

## Budgetary Comparison Schedule - Debt Service Fund For the Year Ended December 31, 2005

	Original Adopted <u>Budget</u>	Final Amended <u>Budget</u>	<u>Actual</u>	Favorable (Unfavorable)
Revenues				
Interest	\$ 500	\$ 540	\$ 595	\$ 55
Grants	<u>76,676</u>	<u>75,876</u>	<u>75,876</u>	<u>-</u>
Total Revenues	77,176	76,416	76,471	55
Expenditures				
Debt Service				
Principal	40,000	40,000	40,000	-
Interest and Fees	<u>35,876</u>	<u>35,876</u>	<u>35,876</u>	<u>-</u>
Total Expenditures	<u>75,876</u>	<u>75,876</u>	<u>75,876</u>	<u>-</u>
Excess Revenues Over Expenditures	<u>\$ 1,300</u>	<u>\$ 540</u>	595	<u>\$ 55</u>
Fund Balance - January 1			<u>48,310</u>	
Fund Balance - December 31			<u>\$ 48,905</u>	

# Companies



**Hendon & Slate, P.C.**  
CERTIFIED PUBLIC ACCOUNTANTS  
BUSINESS CONSULTANTS



February 2, 2006

Library Board  
Fremont Area District Library  
Fremont, Michigan 49412

We have recently completed an audit of the financial statements of Fremont Area District Library as of and for the year ended December 31, 2005. In connection with our audit, we reviewed the Library's accounting procedures. In that regard we have the following comments and recommendations to report.

## **Books and Records**

We are very happy to report that the books and records of the Library are in very good condition. We were able to review all information without significant guidance by the staff. We did recommend several adjustments to assist with proper grant reporting and adjust for modified accrual accounting which we reviewed with Ray and Vicci. They were both in agreement with the changes and the information is reflected in the audited financial statements. Also, we discussed reversing certain items from the year end audit to assist with reporting accurate and useful information to the Board throughout the year.

Due to the size of the Library, the controls over the accounting and financial reporting system are limited. Therefore, we recommend that the Executive Director remain closely involved in the oversight of the bookkeeping position as there are several controls which are performed by this one individual.

## **Financial Information**

Once again we have included several graphs of the financial information. We have not included the short period (from July 1 to December 31, 2004) in any of this data as we do not believe this information would be useful. If the Board would like to see different graphs of information, please feel free to let me know what presentation would be useful.

We appreciate the courtesy extended to us during the course of the audit. We will be happy to assist in the implementation of any of the recommendations mentioned in this letter or answer any questions regarding the audit.

Respectfully submitted,

*Jodi DeKuiper, CPA*

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Hendon & Slate, PC

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